

Nifty – The Top Performer

Introduction:

“Don’t do what others say, just listen to them, but do what you feel good “
-Warren Buffett.

The booming capital market returns and the ever raising demand for gold as an alternative investment avenue persuade the investing community to do a proper homework before arriving at the investment decisions such as: the amount to be invested, investment avenue, investment mix , market [where to invest]and investment horizon.

Money as a medium of exchange has competing demand alternatives. All of us know that “A rupee earned today produces two tomorrow.” But can all that glitters become Gold? [Do all the investment products deliver the equal return?]

In the yester years of India, investment in Capital markets was primarily meant for those who could afford to take a reasonable amount of risk. Those who were in need of a regular income had kept themselves away from the capital market and stock markets were considered to be a dangerous place among most of the investors.

The LPG era has brought in a major shift in the investors’ mindset towards capital markets, thereby today, even a very small investor with a meager sum of money wants to apply for every big ticket IPO, irrespective of the probability of getting the allotment of Shares. For instance, the IPO by Reliance Power had received a record number of applications in the Retail Investor segment such that the company was forced to reject the applicants who had opted less than 225 shares by refunding the application money. 2007 was the year which had seen historical mop up of funds by India Inc through IPOs and FPOs. [The IPO by DLF and the FPO by ICICI bank had mobilized historical proceeds in the last year.]

Both Print and Electronic Media were busy enough in creating a hype about stock market returns which had increased the number of new age investors in the Markets which were exclusively reserved for Bulls and Bears. The sudden increase in the number of Demat[Dematerialization] account holders is the indicator of the attractiveness of the bellwethers among the so called risk avoiders.

The sub prime crisis has collapsed the hopes of the new born investors worldwide. And the leading Indian bourses BSE and NSE do not decouple them with their global counterparts in their reaction to the sub prime crisis and the economic meltdown in the USA. For instance BSE Sensex had fallen down by 1441 points on 21st January 2008[highest fall in its history] and 951 points on 18th March 2008. Though the India Growth Story is continuing its loud talk among the global investors through its projected 8-8.5% GDP growth rate[second fastest growing economy] and ever surging corporate earnings[Despite the slow down in the IIP and Growth rate in Infrastructure of the last 2 months , India Inc had paid 40% more advance taxes for the final quarter of 2008], it could not stop the fall in the indices of the stock exchanges in INDIA.

Experts are of the view that the prevailing bearish trend in Indian stock markets are caused by the global woes despite the presence of the economy’s strong fundamental factors. So the US crisis is creating a fear factor in the mindset of the new age investors such that they may take a “ U turn “ in their judgment about investing in capital markets.

In this context Gold as an alternative investment product has gained increased significance on account of the tanking US Dollar and raising Crude oil prices. The price of 1 savaran [8 grams] gold has crossed the Rs10000 mark for the first time in the last week. So the early investors do not know where to pour their hard earned money. Their burned fingers in the recent fall in the stock markets compel them to think twice before taking a fresh investment exposure. In other words, they would like to compare the historical returns generated by various investment products in India, in order to arrive at the rational investment decisions.

So, every investor whether old or new seeks the answer for the following questions:

1. Which one of the following delivers the best ROI
[a] Investment in Capital Markets or
[b] Investment in Gold.
2. Whether BSE sensx stocks deliver superior returns over Nifty stocks?
3. Do the Compounded growth rate in returns of BSE Sensex, Nifty and Gold vary over different investment horizons?

This article aims to give answers to the above stated questions.
[Furnishing answers to these 3 questions are the objectives of this study].

Methodology:

This study is based on secondary data, which are collected from the websites of the Bombay Stock Exchange, National Stock Exchange and the onlygold.com. This study is based on the movement of indices of sensx& nifty and gold prices over a 9 year period commencing from 28th February 1998 and ending on 29th February 2008. Using the data collected, the compounded annual growth rate in return is computed for the sensx, nifty and gold for 1 year, 3 years, 5 years and 9 years investment horizon. Findings were drawn based on the compounded annual growth rate in return of these 3 investment products. Conclusion was given based on a comprehensive analysis.

Limitations:

The following are the limitations of the study:

- This study compares the returns generated by just 3 of the investment products only. Hence it is not a detailed study covering the returns generated by all the investment alternatives.
- This study covers a period of 9 years [from 28th February 1999 to 29th February 2008] only. Hence the findings and conclusion of this study can not be generalized.
- The above stated limitations require a detailed study on the returns generated by the entire set of investment products covering a longer period say 15-20 years.

Movement of BSE Sensex:

The table below presents the movement in the sensx for the period 28th February 1999 – 29th February 2008.

Movement of BSE sensx

Date	Sensex	change	% of change
28 th Feb 1999	3399.63		
28 th Feb 2000	5446.98	2047.35	60.22
28 th Feb 2001	4247.04	-1199.94	-22.03
28 th Feb 2002	3562.31	-684.73	-16.12
28 th Feb 2003	3562.31	-----	-----
28 th Feb 2004	5667.51	2105.2	59.10
28 th Feb 2005	6713.86	1046.35	18.46
28 th Feb 2006	10370.24	3656.38	54.46
28 th Feb 2007	12939.09	2568.85	24.77
28 th Feb 2008	17578.72	4639.63	35.86

Source: www.bseindia.com

BSE sensx: Bombay Stock Exchange sensitivity Index

Movement of nifty[NSE Index of Fifty]

The table below presents the movement in the nifty for the period 28th February 1999 – 29th February 2008.

Movement of nifty

Date	nifty	change	% change
28 th Feb 1999	981.30		
28 th Feb 2000	1755.45	774.15	78.89
28 th Feb 2001	1448.26	-307.19	-17.50
28 th Feb 2002	1242.55	-205.71	-14.20
28 th Feb 2003	1178.72	-63.83	-5.14
28 th Feb 2004	2052.40	873.68	74.12
28 th Feb 2005	2447.94	395.54	19.27
28 th Feb 2006	3639.43	1191.49	48.67
28 th Feb 2007	4504.73	865.30	23.78
28 th Feb 2008	6356.92	1852.19	41.12

Source: www.nseindia.com

Movement in Gold price:

The following table presents the movement in the price of gold for the period 28th February 1999 – 29th February 2008.

Movement in Gold price

Date	Price per 10 grams [in US \$]	Change	% change
28 th Feb 1999	287.05		
28 th Feb 2000	294.00	6.95	2.42
28 th Feb 2001	266.70	-27.30	-9.29
28 th Feb 2002	296.85	30.15	11.30
28 th Feb 2003	347.45	50.60	17.05
28 th Feb 2004	395.85	48.40	13.93
28 th Feb 2005	435.45	39.60	10.00
28 th Feb 2006	556.00	120.55	27.68
28 th Feb 2007	664.20	108.20	19.46
28 th Feb 2008	971.50	307.30	46.27

Source: www.onlygold.com

One year rate of return of Sensex, nifty and Gold:

Investment product	As on 28 th Feb 2007	As on 29 th Feb 2008	Change	Rate of Return [%]
BSE sensx	12939.09	17578.72	4639.63	35.86
NSE index of Fifty	4504.73	6356.92	1852.19	41.12
Gold[in US \$]	664.20	971.50	307.30	46.27

Compounded annual growth rate of sensx, nifty and gold for a three year investment horizon

- Sensex:

The Bombay Stock Exchange sensitivity Index was at 6713.86 as on 28th February 2005[3 years back]. The value of sensx on 29th feb 2008 was at 17578.72. Using the concept of Future value of single cash flow, we can find out the compounded annual growth rate in the return delivered by BSE sensx as below:

$$[6713.86] [1+g]^3 = 17578.72$$

$$[1+g]^3 = 2.618$$

$$g = [2.618]^{.333} - 1 = 37.78\%$$

- Nifty:

The National Stock Exchange Index of Fifty was at 2447.94 on 28th February 2005 and at 6356.92 on 29th February 2008. The nifty's compounded annual growth rate in return is 37.41% for a 3 year investment horizon.

- Gold:

The price of gold [per 10 grams] was at 435.45 US \$ on 28th February 2005 and at 971.50 US \$ on 29th February 2008. The compounded annual growth rate in return generated by Gold for a 3 year investment period is 30.49%

The compounded annual growth rate of return of the above are presented in the table below:

Three year rate of return of Sensex, nifty and Gold:

Investment product	As on 28 th Feb 2005	As on 29 th Feb 2008	Change	Compounded annual growth rate [%]
BSE sensex	6713.86	17578.72	10864.86	37.78
NSE index of Fifty	2447.94	6356.92	3908.98	37.41
Gold[in US \$]	435.45	971.50	536.05	30.49

Similarly, we can compute the compounded growth rate in return delivered by the sensex, nifty and gold for a 5 year and 9 year investment period. The CAGR in return for the 5 year and 9 year investment period are as below:

Five year rate of return of Sensex, nifty and Gold:

Investment product	As on 28 th Feb 2003	As on 29 th Feb 2008	Change	Compounded annual growth rate [%]
BSE sensex	3562.31	17578.72	14016.41	37.61
NSE index of Fifty	1178.72	6356.92	5178.20	40.07
Gold[in US \$]	347.45	971.50	624.05	22.83

Nine year rate of return of Sensex, nifty and Gold:

Investment product	As on 28 th Feb 1999	As on 29 th Feb 2008	Change	Compounded annual growth rate [%]
BSE sensex	3399.63	17578.72	14179.09	20.01
NSE index of Fifty	981.30	6356.92	5375.62	23.05
Gold [in US \$]	287.05	971.50	684.45	14.48

We can prepare a statement of ranking based on the CAGR in returns delivered by Sensex, nifty and gold for different investment period. The statement helps us to arrive at the ultimate ranking of the 3 investment products considered in our study.

Statement of Ranking in the order of CAGR in Returns delivered by the selected investment products

Investment product	CAGR in returns-1 year investment horizon A	CAGR in returns-3 year investment horizon B	CAGR in returns-5 year investment horizon C	CAGR in returns-9 year investment horizon D	Cagr Ranks A	Cagr Ranks B	Cagr Ranks C	Cagr Ranks D	Total Ranks	Ultimate Rank
Sensex	35.86	37.78	37.61	20.01	3	1	2	2	8	2
Nifty	41.12	37.41	40.07	23.05	2	2	1	1	6	1
Gold	46.27	30.49	22.83	14.48	1	3	3	3	10	3

Findings:

From the above table it is visible that

-Investment in Gold has delivered the highest return [46.27%] for the one year investment period [2007-08]. Nifty gets the second rank [CAGR in returns at 41.12%] followed by sensex with 35.86% CAGR in returns.

-Sensex has offered the highest return[37.78%] for a 3 year investment followed by nifty with 37.41% .Gold has offered just 30.41% CAGR in return for the 3 year investment period.[2005- 2008].

- Nifty has delivered superior return over its competitive investment avenues for investment horizon exceeding 5 years. Gold has offered the lowest return for a investment period covering 5 years and above.
- Nifty has secured the first rank [ultimate rank] indicating its superiority over its competitive investment products.
- Sensex emerges as the second best investment avenue followed by Gold as the investment avenue producing the least return compared to nifty and sensex.
- However the CAGR in return of Gold over the long run is well above the returns offered by other investment avenues like Fixed deposits in PSU/Private banks, EPF, PPF and money market instruments which offer a rate of return which is just above the annual rate of Inflation.

CONCLUSION

This study helps a new born investor to understand the rate of return produced by different investment products over the short, medium and long run investment period. This study concludes that Nifty is the superior performer among the various investment products available for an investor in India. Further research can be carried over the returns generated by the other indices like BSE 100, BSE 200, nifty junior, sectoral indices etc, and other products like real estates.

Let us remember the following quote

“Even a correct decision is wrong when it was taken too late “

-Karl Marx.